

Message Text

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PAGE 01 CARACA 05069 052222Z

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LIMDIS

E.O. 11652: GDS

TAGS: EMIN ETRD

SUBJECT: U.S. STEEL NEGOTIATIONS WITH VENEZUELAN GOVERNMENT

1. STANLEY COHLMAYER AND RAYMOND RYAN CALLED ON ME TODAY TO REPORT THAT THEIR CONVERSATIONS WITH PEREZ GUERRERO AND GAMBOA (CARACAS 4482) SEEM STALEMATED FOR A NUMBER OF REASONS, OF WHICH THE MOST OBVIOUS IS FACT THAT PEREZ GUERERO WILL LEAVE JUNE 8 FOR WASHINGTON TO PARTICIPATE IN A MEETING OF THE GROUP OF TWENTY-FOUR. HOWEVER, MORE SUBSTANTIVE STUMBLING BLOCKS ARE IRRITATION OF GOVERNMENT OVER PRESS REPORTS THAT U.S. STEEL WAS SELLING REAL ESTATE IN PUERTO ORDAZ, WHICH MIGHT SEEM TO BE IN CONTRAVENTION AT LEAST OF THE PRINCIPLES ESTABLISHED IN THE PETROLEUM REVERSION LAW AND--OF GRAVER IMPORT--THE QUESTION WHETHER THE GOVERNMENT IS SERIOUSLY IRRITIATED AT US.S. STEEL MANAGEMENT FOR WHAT IT MIGHT CONSTRUE TO HAVE BEEN A TURNDOWN BY CHARIRMAN OF THE BOARD SPEER TO AN INQUIRY FROM THE VENEZUELAN MINISTER OF MINES WHETHER OR NOT U.S. STEEL HAD ANY PLANS FOR

BUILDING A STEEL MILL ON THE LOWER ORINOCO.

2. THE REAL ESTATE ISSUE IS NOT A MAJOR ONE BUT IS AMONG THE COUNTERIRRITANTS WHICH MAY ENVENOM FUTURE CONVERSATIONS. AS A MATTER OF FACT, IN 1952 IN PLANNING THE OPEN CITY OF PUERTO ORDAZ,

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PAGE 02 CARACA 05069 052222Z

U.S. STEEL BROUGHT THE REAL ESTATE UPON WHICH THE CITY WAS EVENTUALLY

BUILT AND OVER A PERIOD OF 22 YEARS HAS BEEN METHODICALLY SELLING OFF LOTS IN THE URBAN AREA. THIS REAL ESTATE PURCHASE HAD NOTHING TO DO WITH THE IRON ORE CONCESSION. HOWEVER, AT LAST WORKING SESSION JUNE 2, GAMBOA AND PEREZ GUERRERO INSISTED THAT THE COMPANY CEASE SELLING ANY MORE REAL ESTATE AT PUERTO ORDAZ, AND COHLMeyer AND RYAN AGREED TO SUSPEND AN OTHERWISE PERFECTLY LEGITIMATE DEAL TO DISPOSE OF ITS REMAINING REAL ESTATE HOLDINGS TO A PRIVATE CONSORTIUM.

3. THE STEEL MILL PROBLEM MAY PROVE TO BE MORE SERIOUS. WHEN THE MINISTER OF MINES ASKED CHAIRMAN OF THE BOARD SPEER ON APRIL 26 IF HIS COMPANY HAD PLANS FOR BUILDING A STEEL MILL IN THE CIUDAD GUAYANA AREA, SPEER'S ANSWER AS A BLUNT "NO". THIS MAY HAVE RAISED HACKLES HIGHER UP IN MIRAFLORES PALACE.

4. I ASKED RYAN AND COHLMeyer IF A DEAL MIGHT POSSIBLY BE CONSIDERED WHEREBY U.S. STEEL WOULD OFFER TO BUILD A MODERN STEEL PLANT AT CIUDAD GUAYANA, TO BE FINANCED BY THE VENEZUELAN GOVERNMENT FROM ITS VASTLY INCREASED OIL REVENUES. THE ADVANTAGE OF SUCH A PROPOSITION

WOULD BE THAT AN AMERICAN COMPANY WOULD FURNISH THE MACHINERY AND KNOW-HOW IN BUILDING A STEEL PLANT WHICH WOULD NOT COME ON STREAM FOR PERHAPS TEN YEARS, DURING WHICH TIME ORINOCO MINING AND THE SMALLER BETHLEHEM IRON MINES WOULD CONTINUE TO MINE IRON ORE AND SEND IT TO THE UNITED STATES AND EUROPE. NO ONE IN EITHER OF THE TWO AMERICAN COMPANIES DISPUTES THE PRIOR RIGHT OF VENEZUELA TO USE ITS OWN IRON TO MAKE ITS OWN STEEL. HOWEVER, ACCORDING TO COHLMeyer, THE GOV CONTEMPLATION IS A GIGANTIC STEEL MILL OF SIX MILLION TONS PRODUCTION CAPACITY A YEAR. SUCH A MILL, HE SAID, WOULD COST BETWEEN 3.5 AND 4 BILLION DOLLARS. U.S. STEEL CERTAINLY DID NOT HAVE THAT KIND OF MONEY TO PUT IN AS AN INVESTMENT OF ITS OWN IN VENEZUELA. HOWEVER, BOTH COHLMeyer AND RYAN AGREED WITH ME THAT IF THE GOV WERE WILLING TO PUT ITS OWN MONEY INTO SUCH AN INVESTMENT, CERTAINLY U.S. STEEL HAD THE TECHNICAL CAPABILITY TO BUILD SUCH A PLANT.

5. AS MATTERS NOW STAND, CONVERSATIONS WILL REMAIN IN SUSPENSE UNTIL THE RETURN OF PEREZ GUERRERO. HOWEVER, IT MAY TRANSPIRE THAT WE MIGHT FIND AN OPPORTUNITY TO SOUND OUT FRIENDS IN THE VENEZUELAN GOVERNMENT AS TO WHETHER SUCH A PROPOSAL MIGHT BE
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PAGE 03 CARACA 05069 052222Z

GIVEN SERIOUS CONSIDERATION.
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